

CONSUMER INFORMATION

Federal Communications Commission, 1919 M Street NW, Washington, DC 20554

The FCC's Universal Service Support Mechanisms

Introduction

This brochure describes the actions the FCC has taken to ensure that affordable access to telecommunications services is available to:

- ★ telephone customers with low incomes;
- ★ telephone customers who live in areas where the costs of providing telephone service is high;
- ★ schools and libraries; and
- ★ rural health care providers.

For many years universal service support mechanisms have helped make telephone service affordable for low-income consumers and consumers who live in areas where the cost of providing service is high.

Congress mandated in the Telecommunications Act of 1996 -- also called "**the 1996 Act**" -- that universal service mechanisms should also include support for schools, libraries, and rural health care providers. The FCC has adopted rules to implement this requirement. The following are commonly asked questions about these universal service support mechanisms.

Universal Service Charges

***Why has the FCC provided support for low income consumers and consumers in high cost areas?
How long have they received this support?***

Since its inception in the 1930's, it has been the policy of the FCC to promote service to all households that desire telephone service. Telephone service provides a vital link to emergency services, to other government services, and to surrounding communities.

For many years the support mechanisms for high cost areas were handled privately by the telephone industry, primarily by AT&T. With the break up of AT&T in the early 1980's, the FCC set up a mechanism to ensure that the rates of local telephone companies would remain affordable to consumers. The FCC's programs to assist low income consumers, described in detail below, began in 1985. These programs reduce the monthly local telephone charges for low income consumers and assist them with initiation fees for local telephone service.

Who pays for universal service?

In the past, only long distance companies paid fees to support universal service. The 1996 Act expanded the pool of companies contributing to universal service. Starting in 1998, universal service will be supported by all telecommunications carriers that provide service between states -- including long distance companies, local telephone companies, cellular telephone companies, paging companies, and payphone providers.

How much do companies contribute for universal service?

During the first quarter of 1998, all companies that provide telephone service between states will contribute just under 4 percent of the amount they billed in 1997 to their residential and business customers for telecommunications services. The percentage that companies contribute will be adjusted every quarter based on projected universal service demands.

My long distance company telephone bill lists universal service charges. Did the FCC require long distance companies to pass on their contributions to the universal service fund to their customers?

No. The FCC did not require companies contributing to universal service to recover their contributions directly from their customers.

Some companies contributing to universal service have added to their customers' bills new charges and fees -- such as a new "universal service fee" of between 4.4 percent and 5.4 percent -- to recover their contributions. Some companies have chosen not to pass on additional charges to their customers.

Schools and Libraries

Will residential and business telephone rates go up so that schools and libraries can be connected to the Internet?

One of the primary objectives of the FCC has been to ensure that interstate telephone rates do not increase as a result of changing regulations, policies, and rules.

The FCC has taken steps to ensure that the costs of supporting universal service would not require long distance rates to increase. Each long distance telephone call you make includes per-minute charges that your long distance carrier pays to both your local telephone company and to the local telephone company of the person you call. These charges to long distance companies are called "**access charges**" and are part of the long distance companies' costs of providing long distance service.

The FCC recently reformed its system of interstate access charges. Under the FCC's new rules, the charges the long distance companies pay local telephone companies for each line the long distance companies serve went

up -- but the per-minute charges long distance companies pay for each call made by their customers were reduced by an even greater amount.

The reduction in per-minute charges that long distance companies pay to local telephone companies for use of the local companies' telephone network have and will likely continue to offset any increased universal service costs for the long distance companies.

The FCC also has taken steps to ensure that expenditures that are made on behalf of eligible schools, libraries, and rural health care providers are delivered effectively and at the lowest possible prices. In addition, consistent with the 1996 Act's mandate, the FCC has imposed reasonable limitations on the types of discounted services that eligible schools, libraries, and rural health care providers may receive and has imposed annual caps on expenditures for these support mechanisms.

It is important to remember that although universal service was expanded by the 1996 Act to provide support to eligible schools, libraries, and rural health care providers, the number of companies contributing to universal service also has expanded.

Doesn't the FCC's schools and libraries support mechanism duplicate state and local efforts, as well as voluntary activities?

No. The FCC's plan complements the efforts underway by states and localities to bring the information superhighway to America's classrooms and libraries.

A significant portion of the costs of wiring schools comes from computers, software, and teacher training. These costs are not supported by universal service.

Universal service support provides discounts only for telecommunications services, Internet access, and internal connections. School administrators must negotiate with service providers to obtain the best and most cost-effective package of services, and then apply for a discount of 20 to 90 percent, depending on the income level and whether the school or library is located in a rural area.

According to data collected by the U.S. Department of Education in 1996, only 14% of all public school instructional classrooms are connected to the Internet. The federal support to schools and libraries augments state and local efforts and builds on voluntary efforts.

Financial Assistance Programs

I have a low income and can't afford to pay full price for telephone service. Are there federal programs that provide financial assistance?

Yes. Two federal universal service programs provide financial assistance to low-income telephone subscribers and ensure that low-income Americans can afford telephone service.

Link-Up America helps qualified low income consumers to connect, or hook up, to the telephone network. This federal program offsets one-half of the initial hook-up fee, up to \$30.00, for qualified households. The program also includes a plan to encourage local telephone companies to offer low income telephone subscribers a deferred payment schedule for these charges.

The ***Lifeline Assistance Program*** provides a waiver of the \$3.50 federal subscriber line charges for qualified telephone subscribers, and, depending on the actions by state authorities, an additional reduction in a qualified subscriber's local phone bill of up to \$3.50 per month in certain states. Thus, the maximum monthly federal lifeline assistance support per month for any subscriber is \$7.00.

These two programs are available to qualifying consumers in every state, territory, and commonwealth. You should contact your local telephone company or your state regulatory agency for information about these programs and to determine whether or not you qualify for financial assistance under these programs. You can obtain the telephone number and address for your state regulatory agency from your local or state consumer offices or the government section of your telephone directory. The telephone number for your state regulatory agency can be found on the FCC's web site at http://www.fcc.gov/ccb/consumer_news/state_puc.html

Tips For Consumers

The company that provides my long distance telephone service added universal service charges to my bill. What options do I have?

- ★ Remember -- the FCC does not require your long distance company to place these charges on your bill. Let the company know if you

believe these charges are inappropriate or are too high. It's in the company's best interest to meet the needs of its customers.

- ★ Companies compete for your telephone business. Use your buying power wisely and shop around. Long distance companies are taking very different approaches to whether and how they are charging their customers to reflect the universal service charges they pay.
- ★ Call other companies and ask if they add these types of charges to their customers' bills. If these charges are added to customers' bills, ask each company to explain how these charges are calculated and exactly what amount would appear on your bill if you decide to use the company's services. Be sure to ask each company about its per-minute rates and special calling plans. You should make sure that you are getting the best deal for the types of calls you place.
- ★ Find the carrier whose combination of per-minute calling rates and any additional charges best meets your needs. For example, if you make a lot of long distance calls you might want to avoid a long distance company that charges its customers for the universal service charge through a percentage of the amount you spend on long distance calls.
- ★ If you have a contract with a telephone company to provide long distance or wireless service, carefully read the contract to determine whether or not the company is allowed to add new charges or surcharges to your bill.

It is important to remember that:

- ★ Any increase in the amount that long distance companies pay toward universal service has been largely offset by reductions in the amount of per-minute access charges the companies pay to local telephone companies for each call made by the long distance companies' customers.
- ★ The FCC did not tell companies whether or how to adjust their customers' rates in response to the new payments. The long distance and wireless companies have decided what to do, and some companies have implemented charges significantly different from other companies.